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SUBJECT: ARGENTINA ECONOMIC AND FINANCIAL REVIEW, SEPTEMBER 21-24, 2009

¶1. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period September 21-24, 2009. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ OMS Megan Walton at WaltonM@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

DISAPPOINTING AUGUST PRIMARY FISCAL SURPLUS, DOWN 85% Y-O-Y

2.(SBU) The GoA announced September 21 that the August primary fiscal surplus declined 85% y-o-y to ARP 540 million from ARP 3.7 billion a year ago and was also much lower than private analysts' estimate of ARP 889 million. This was the result of weaker-than-expected tax revenues, which increased only 5% y-o-y to ARP 19.9 billion, and higher primary expenditures, which increased 22% y-o-y to ARP 19.3 billion. Taking interest payments into account, the overall fiscal balance for August is a deficit of ARP 245 million. Expenditures were mainly driven by an increase in capital expenditures, transfers to the provinces and to the private sector (subsidies), and social security benefits. Year-to-date the primary surplus is at ARP 8.5 billion, or less than a third of the ARP 28.0 billion booked during the same period in 2008. In a press conference, the Minister of Economy Amado Boudou along with Secretary of the Treasury Juan Carlos Pezoa attributed the weak fiscal result to the impact of the H1N1 flu and the international financial crisis, as well as the implementation of a counter-cyclical fiscal policy to alleviate the effects of the global crisis. Boudou also noted that a 1.38% of GDP (or about ARP 15 billion) primary surplus target "is achievable" for 2009. GDP DOWN 0.8% Y-O-Y IN Q2 2009

3.(SBU) The GoA announced September 18 that GDP decreased 0.8% y-o-y in the second quarter of 2009, after increasing 2% in Q1, which results in an accumulated increase of 0.6% in the first half of the year. In sharp contrast, private analysts estimate a fall in GDP of 6% for the second quarter. The second quarter decline is mainly due to a fall in private consumption (down 2%) and investment (down 11%) with a drop both in construction (-5%) and in plant and machinery investment (-19%), all of which were partially offset by an increase in public consumption (+6%). The implicit GDP price deflator increased 8.7% y-o-y for Q2, not reflecting private inflation estimates hovering around 12-15%.

THE POVERTY RATE DROPPED 3.9 PERCENTAGE POINTS TO 13.9% IN THE FIRST HALF OF 2009, ACCORDING TO INDEC

4.(SBU) On September 22, INDEC announced that the poverty rate fell to 13.9% in the first half of year from 17.8% for the same period a year ago, well below private sector estimates of around 32-35%. According to the GoA, the 13.9% poverty rate represents 3.4 million people. Analysts were surprised that INDEC's announcements did not maintain the recent trend of narrowing the gap between official figures and private estimates.

